

# Fiscal Note

State of Alaska  
2021 Legislative Session

Bill Version:	CSHB 55(FIN)
Fiscal Note Number:	2
(H) Publish Date:	5/17/2021

Identifier: HB55-DOA-DRB-5-17-21  
Title: PEACE OFFICER/FIREFIGHTER RETIRE  
BENEFITS  
Sponsor: JOSEPHSON  
Requester: (H) Finance

Department: State Retirement Payments  
Appropriation: PERS State Assistance  
Allocation: All Other PERS  
OMB Component Number: 2866

## Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below.

(Thousands of Dollars)

	FY2022 Appropriation Requested	Included in Governor's FY2022 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	FY 2022	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous			5,300.0	5,600.0	6,100.0	5,700.0	5,700.0
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>5,300.0</b>	<b>5,600.0</b>	<b>6,100.0</b>	<b>5,700.0</b>	<b>5,700.0</b>

## Fund Source (Operating Only)

1004 Gen Fund (UGF)			5,300.0	5,600.0	6,100.0	5,700.0	5,700.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>5,300.0</b>	<b>5,600.0</b>	<b>6,100.0</b>	<b>5,700.0</b>	<b>5,700.0</b>

## Positions

Full-time							
Part-time							
Temporary							

## Change in Revenues

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Estimated SUPPLEMENTAL (FY2021) cost:** 0.0 (separate supplemental appropriation required)

**Estimated CAPITAL (FY2022) cost:** 0.0 (separate capital appropriation required)

**Does the bill create or modify a new fund or account?** Yes  
(Supplemental/Capital/New Fund - discuss reasons and fund source(s) in analysis section)

## ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No  
If yes, by what date are the regulations to be adopted, amended or repealed?

## Why this fiscal note differs from previous version/comments:

Updated analysis section for HFIN amendment changing maximum employee contribution from 10% to 12%. There is no change in the fiscal impact to the PERS system from this change and the attached actuarial analysis reflects the initial version of the legislation.

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Division: Retirement and Benefits  
Approved By: Leslie Isaacs, Administrative Services Director  
Agency: Office of Management of Budget

Phone: (907)465-4471  
Date: 05/17/2021 01:00 PM  
Date: 05/17/2021

**REPORTED OUT OF  
HFC 05/17/2021**

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2021 LEGISLATIVE SESSION

## Analysis

This bill proposes to open the Public Employees' Retirement System (PERS) Defined Benefit Plan (DB) by adding a new benefit tier or plan for peace officers and firefighters (P/F). New employees will be enrolled into this new benefit tier or plan of the defined benefit plan. Existing PERS P/F Defined Contribution Retirement (DCR) members will be allowed an opportunity to convert to the new defined benefit tier or plan.

The PERS system consulting actuary, BUCK Global LLC (Buck), has calculated the financial effects if this bill should pass as written. The basic result is that there will be an increase to the PERS additional state contribution because a smaller portion of the 22% employer contribution for the P/F members will be deposited to the defined benefit trust than is currently deposited with the defined contribution distribution of funding.

Since this bill would take effect on July 1, 2021, there is no financial impact to Fiscal Year 2021. There is also no impact for Fiscal Year 2022 because contribution rates for Fiscal Year 2022 have already been adopted by the Alaska Retirement Management Board. If future experience matches the actuarial assumptions used to value the plan's liabilities, the dollar increase on the PERS additional state contribution is reflected below:

Year	FY2023	FY2024	FY2025	FY2026	FY2027
Dollars (in thousands)	\$5,300	\$5,600	\$6,100	\$5,700	\$5,700

Projected PERS additional state contributions beyond FY2027 are also expected to increase.

See attached letter from Buck dated April 28, 2021. As noted in Item A. on page 1 of the letter, "...by shifting active P/F members (and all future P/F hires) from DCR to DB, the State will be taking on greater risk of higher [additional state] contributions in future years. However, this risk is somewhat mitigated as long as the minimum contribution rate to the HB 55 trust (9%) is greater than the actuarially determined contribution rate for HB 55 members."

This legislation includes several cost containment levers. These levers include a minimum retirement age of 55 with 20 years of service, flexibility for the Alaska Retirement Management Board to change the employee contribution rate as needed (up to 12 percent), a minimum 12 percent employer contribution rate, and the ability to suspend the post-pension retirement adjustments if the plan's funding level for HB 55 members drops below 90 percent. Also, it does not include the Alaska Cost of Living (10% of base benefit based on Alaska residency) for Police/Fire Fighters retirees of the new tier.



April 28, 2021

Mr. Jim Puckett  
Deputy Director/Chief Pension Officer  
Division of Retirement and Benefits  
State of Alaska  
P.O. Box 110203  
Juneau, AK 99811-0203

**RE: Fiscal Note Analysis for HB 55**

Dear Jim:

As requested, we are providing a fiscal note analysis for HB 55.

HB 55 is a proposed bill that would (i) allow for the transfer of Peace Officer/Firefighter (P/F) active members from the State of Alaska Public Employees' Retirement System Defined Contribution Retirement Plan (PERS DCR) to the Public Employees' Retirement System defined benefit plan (PERS DB), and (ii) provide that all future P/F hires automatically enter PERS DB rather than PERS DCR. In this letter, we use "HB 55 members" to refer to P/F members who are affected by HB 55.

**A. Impact of HB 55 on Projected Additional State Contributions for FY23 - FY27**

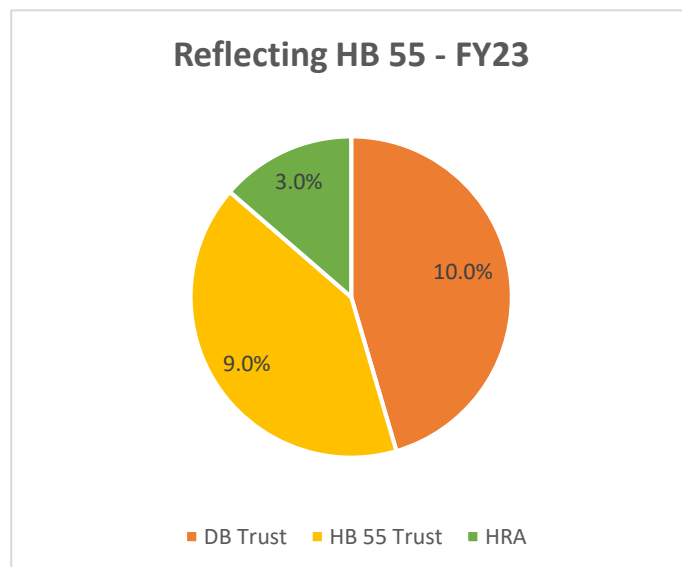
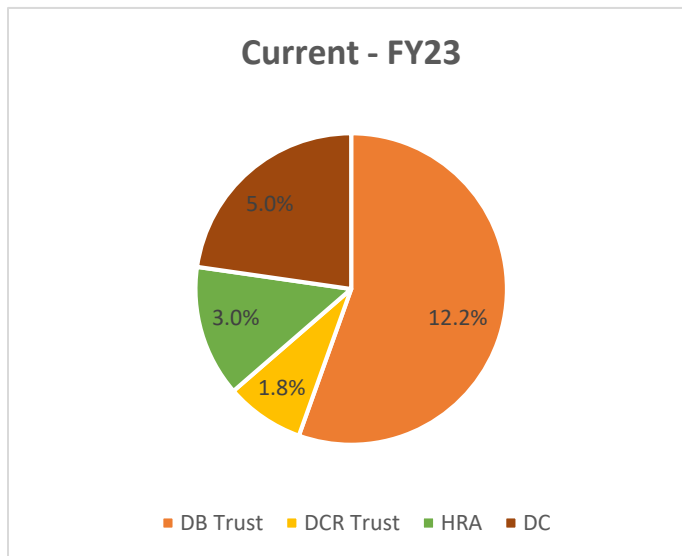
Adverse plan experience (due to poor asset returns and/or unexpected growth in liabilities) or changes to more conservative assumptions will increase the plan's unfunded liabilities, which results in higher Additional State Contributions. The impact of HB 55 on projected Additional State Contributions depends on how large the unfunded liabilities become. If the Actuarially Determined Contribution rate for HB 55 members' pension and healthcare benefits exceeds 9%<sup>1</sup>, then HB 55 will lead to larger increases in Additional State Contributions compared to what would have happened without HB 55. **Also, by shifting active P/F members (and all future P/F hires) from DCR to DB, the State will be taking on greater risk of higher contributions in future years. However, this risk is somewhat mitigated as long as the minimum contribution rate to the HB 55 trust (9%) is greater than the actuarially determined contribution rate for HB 55 members.**

If future experience matches the actuarial assumptions used to value the plan's liabilities as of June 30, 2020, the Additional State Contributions for FY23-FY27 are projected to increase due to HB 55 as shown in the table below. Projected Additional State Contributions beyond FY27 are also expected to increase.

(\$ millions)	FY23	FY24	FY25	FY26	FY27	5-Year Total
Increase in Additional State Contributions Under HB 55	\$5.3	\$5.6	\$6.1	\$5.7	\$5.7	\$28.4

<sup>1</sup> The 12% minimum employer contribution rate for HB 55 members less the 3% HRA contribution.

The increase in Additional State Contributions can be explained by the pie charts below. These show the distribution of the 22% of pay employer contribution for FY23 for HB 55 members among the various trusts (similar distributions of employer contributions would apply to other years). Because the percentage being deposited to the DB trust decreases (from 12.2% to 10.0%), the Additional State Contribution increases to make up the shortfall.



## B. Summary of HB 55 Benefit Provisions

HB 55 would allow P/F members who are in PERS DCR to make a one-time irrevocable election to transfer to PERS DB within 90 days of the July 1, 2021 effective date of the bill. HB 55 also provides that all future P/F hires will enter PERS DB rather than PERS DCR. The PERS DB benefit provisions that will apply to HB 55 members are summarized below:

- Eligibility for normal retirement benefits is age 60 with 5 years of credited service, or age 55 with 20 years of credited service. The eligibility for healthcare benefits will be the same as the current retiree medical eligibility provisions for P/F members in PERS DCR (i.e., age 65 with 10 years of credited service or any age with 25 years of credited service).
- Member contributions are 8% of pay (and can be increased by the Alaska Retirement Management Board (ARMB) to no more than 10% of pay).
- Average pay used to determine retirement benefits is the 5 consecutive payroll years that yields the highest average.
- The normal retirement benefit is 2% of average pay for the first 10 years of service, and 2.5% of average pay for service over 10 years.
- The Postretirement Pension Adjustment (PRPA) applies, but the Alaska residency-based COLA does not apply to HB 55 members. The ARMB can reduce the PRPA for HB 55 members if the funded status of the HB 55 trust is less than 90%<sup>2</sup>.
- Retiree medical benefits and member premiums are the same as under PERS DCR. Surviving spouses are eligible for medical coverage only if the member had retired or was eligible to retire at the date of death. Election to participate in the retiree medical plan must be made at the later of age 70 ½ or date of retirement. Retired members and spouses must pay the full monthly premium prior to being eligible for Medicare.

## C. Employer Contributions Under HB 55

In accordance with AS Section 39.35.255(a), each employer contributes 22% of pay.

- Our understanding is that a new HB 55 sub-trust ("HB 55 trust") will be established within PERS DB and will be used exclusively to fund the pension and healthcare benefits of HB 55 members. Separate HB 55 trusts will be established for pension and healthcare benefits.
- Employers will continue to contribute 3% of pay to the HB 55 members' Health Reimbursement Arrangement (HRA) plan trust in accordance with AS Section 39.30.370.
- Employer contribution rates will be separately determined for the pension and healthcare benefits provided under HB 55.
- Beginning in FY22, the employer contributions to the HB 55 trust will be the Actuarially Determined Contributions for HB 55 members, but not less than 9% of HB 55 members' pay (12% minimum employer contribution under AS Section 39.35.255(i) less the 3% HRA contribution)<sup>3</sup>. We assumed the 9% minimum employer contribution to the HB 55 trust will be allocated between the pension and healthcare HB 55 trusts based on the Actuarial Accrued Liability of the HB 55 members' pension and healthcare benefits.

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<sup>2</sup> The funded status of the HB 55 trust is projected to remain above 90% assuming future experience matches the actuarial assumptions used to measure the plan's liabilities.

<sup>3</sup> We assumed the 9% employer contribution to the HB 55 trust in FY22 replaces what would have been contributed in FY22 to the DCR plan for occupational death and disability benefits, retiree medical benefits and DC matching contributions for transferred members.

- The excess of the 22% of pay employer contribution over the sum of (i) the employer contribution to the HB 55 trust, and (ii) the 3% HRA contribution will be deposited to the PERS DB trust each year<sup>4</sup>.

#### D. Assets to be Transferred to the HB 55 Trust

In performing our analysis, we assumed various amounts will be transferred to the HB 55 trust as described below:

- The accumulated employee and employer contributions in each HB 55 member's Defined Contribution (DC) account will be transferred to the HB 55 pension trust to purchase credited service for retirement benefits. The service purchase calculations will be made on an actuarially equivalent basis to be determined by the ARMB<sup>5</sup>. If the amount transferred is insufficient to purchase all of the transferred member's DCR service, the member can create an indebtedness for the shortfall<sup>6</sup>. If the amount to be transferred exceeds the amount needed to purchase all of the member's DCR service, the excess will remain in the member's DC account. If the transferred member terminates before becoming vested in PERS DB, only the transferred employee contributions with interest will be refunded.
- Assets in the PERS DCR retiree medical trust for P/F members will be transferred to the HB 55 healthcare trust. The amount to be transferred equals the PERS DB healthcare Actuarial Accrued Liability as of June 30, 2020 for members who elect to transfer.
- Assets in the PERS DCR occupational death & disability trust for P/F members will be transferred to the HB 55 pension trust. The amount to be transferred equals the decrease in the occupational death & disability Actuarial Accrued Liability as of June 30, 2020 for active members who elect to transfer.
- The estimated amounts that employers are contributing for FY21 to PERS DCR for P/F members' (i) occupational death and disability benefits, (ii) retiree medical benefits, and (iii) DC matching contributions will be deposited to the HB 55 trust. We assumed the amounts in (i) and (iii) will be deposited to the HB 55 pension trust, and the amount in (ii) will be deposited to the HB 55 healthcare trust. These amounts were estimated based on projected payroll.

The asset transfer amounts are summarized below (\$ millions)<sup>7</sup>:

Item	As of Date	HB 55 Pension Trust	HB 55 Healthcare Trust
(a)	June 30, 2020	\$ 145.4	\$ 0
(b)	June 30, 2020	\$ 0	\$ 19.0
(c)	June 30, 2020	\$ 3.2	\$ 0
(d)	June 30, 2021	\$ 11.6	\$ 2.6

<sup>4</sup> For purposes of this analysis, the excess contributions made to the PERS DB trust were assumed to be deposited to the pension trust.

<sup>5</sup> For purposes of this analysis, the actuarial equivalent basis reflects the assumptions used to determine liabilities for pension benefits in the June 30, 2020 actuarial valuation, except the retirement rates were a blend of 75% of the PERS DCR retirement rates and 25% of the PERS DB retirement rates.

<sup>6</sup> For purposes of this analysis, we assumed no employee indebtedness would be created.

<sup>7</sup> Amounts as of June 30, 2020 will be increased with expected return to the July 1, 2021 effective date.

**E. Members Assumed to Transfer from PERS DCR to PERS DB**

For those who transfer, there will be an additional cost in PERS DB and a reduction in cost in PERS DCR. The overall net cost impact will depend on (i) how many members transfer and (ii) which members transfer. All results shown in this letter assume 100% of eligible members will elect to transfer from PERS DCR to PERS DB. The actual costs of HB 55 will be based on the actual number and demographics of the members who elect to transfer.

We determined the PERS DB service purchase amounts based on the Actuarial Accrued Liability of pension benefits in PERS DB (using the June 30, 2020 valuation assumptions and the blended retirement rates described in the Section F of this letter). For each individual, a comparison was made between their pension Actuarial Accrued Liability and DC account balances as of June 30, 2020 (employee and employer) that were provided to us. If the total of the DC account balances is equal to or greater than the pension Actuarial Accrued Liability, all of the P/F member's DCR service was credited to PERS DB. If the total of the DC account balances is less than the pension Actuarial Accrued Liability, only a portion of the P/F member's DCR service was credited to PERS DB<sup>8</sup>. For example, if an individual's total DC account balance is 90% of his/her pension Actuarial Accrued Liability, then 90% of his/her DCR service is credited to PERS DB. The results of this process are described below:

- As of June 30, 2020, there were 2,228 P/F active members in PERS DCR with approximately \$159.2M of DC account balances.
- Of the 2,228 members, 1,103 had DC account balances at least equal to their pension Actuarial Accrued Liability, so all of their DCR service was credited to PERS DB. The remaining 1,125 members had partial DCR service credited to PERS DB.
- On average, approximately 88% of DCR service as of June 30, 2020 was credited to PERS DB.
- Approximately \$145.3M of the DC account balances as of June 30, 2020 (approximately 91% of the total) was assumed to be transferred to the HB 55 pension trust.

**F. Additional Notes**

The assumptions and methods used in our analysis are the same as those described in the June 30, 2020 actuarial valuation reports, except the retirement assumption used to determine the costs and liabilities for HB 55 members was a blend of 75% of the PERS DCR retirement assumption and 25% of the PERS DB retirement assumption. For purposes of this analysis, we did not assume any ARMB-directed increases in member contributions under AS Section 39.35.160(e).

FY22 contribution rates that have been adopted by the ARMB were reflected in our analysis. The FY22 DCR contributions that would have been made for occupational death and disability benefits, retiree medical benefits and DC matching contributions for transferred members were assumed to be replaced by the 9% employer contribution to the HB 55 trust in FY22.

Our projections assume (i) post-June 30, 2020 experience matches the assumptions, (ii) a stable active population in all future years, and (iii) the rehire assumption from the June 30, 2020 valuation grades to zero uniformly after 20 years (no rehire assumption was applied for HB 55 members).

This study includes only estimated costs due to the net effects on the employer Normal Cost and Unfunded Actuarial Accrued Liability as eligible members transfer from PERS DCR to PERS DB.

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<sup>8</sup> For purposes of this analysis, we did not assume any indebtedness would be created for the shortfall.

April 28, 2021

Mr. Jim Puckett

State of Alaska

The study does not include other costs that may be incurred by employers outside of PERS DB or PERS DCR (e.g., potential anti-selection issues that may arise when individuals are presented with a choice between the DB and DCR plans).

The ARMB, staff of the State of Alaska, and HB 55 bill sponsors may use this letter for purposes of analyzing the potential cost impact of HB 55. Use of this letter for any other purpose or by anyone other than the Board, staff of the State of Alaska or HB 55 bill sponsors may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods or inapplicability of the letter for that purpose. Because of the risk of misinterpretation of actuarial results, you should ask Buck to review any statement you wish to make on the results contained in this letter. Buck will not accept any liability for any such statement made without the review by Buck.

Future actuarial measurements and projections may differ from the current measurements presented in this letter due to such factors as: plan experience different from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. An analysis of the potential range of such future differences is beyond the scope of this letter.

#### G. ASOP 51 Risk Discussion

Section 6 of the June 30, 2020 PERS actuarial valuation report provides details regarding the risks underlying the funding of the plan. As described in Section A of this letter, adverse plan experience (due to poor asset returns and/or unexpected growth in liabilities) or changes to more conservative assumptions could affect the impact of HB 55 on projected Additional State Contributions. If the Actuarially Determined Contribution rate for HB 55 members' pension and healthcare benefits exceeds 9%, then HB 55 will lead to larger increases in Additional State Contributions compared to what would have happened without HB 55. **Also, by shifting active P/F members (and all future P/F hires) from DCR to DB, the State will be taking on greater risk of higher contributions in future years. However, this risk is somewhat mitigated as long as the minimum contribution rate to the HB 55 trust (9%) is greater than the Actuarially Determined Contribution rate for HB 55 members.**

#### H. Actuarial Certification

This letter was prepared under our supervision and in accordance with all applicable Actuarial Standards of Practice. David Kershner and Scott Young are Fellows of the Society of Actuaries, Enrolled Actuaries and Members of the American Academy of Actuaries. We meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

If there are any questions, David can be reached at (602) 803-6174 and Scott can be reached at (216) 315-1929.

Respectfully submitted,



David J. Kershner, FSA, EA, MAAA, FCA  
Principal, Wealth  
Buck



Scott Young, FSA, EA, MAAA  
Director, Health  
Buck